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C O N F I D E N T I A L CARACAS 003927

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E.O. 12958: DECL: 12/23/2014
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)
SUBJECT: THE GOOD, THE BAD, AND THE MESSY - VENEZUELAN
MACRO NEWS

REF: CARACAS 3747

Classified By: ACTING DCM RICHARD M. SANDERS FOR REASON 1.4 D

SUMMARY

[11.](#) (C) Recent economic news in Venezuela is mixed. Third quarter GDP growth is an impressive 15.8%, and total 2004 growth estimates are being revised upward to as much as 18%, though the GOV predicts 15-16%. Venezuelan oil prices for December, on the other hand, are 28% below their October high. Meanwhile, pressure on the Venezuelan Central Bank continued, as Chavez demanded the resignation of the Bank's President - whose term is just weeks away from its end. END
SUMMARY.

THE GOOD - GDP GROWTH EXCEEDING OLD ESTIMATES

[12.](#) (U) The Venezuelan Central Bank (BCV) announced in November that 2004 3rd quarter GDP was 15.8% higher than the same period in 2003, including 18.6% growth in the non-oil sector. The overall result was 4.6% higher than the 2nd quarter, and the cumulative growth through September is 20.4%. This positive result has influenced various economists to raise estimates for total 2004 growth. Albis Munoz, President of business umbrella group FEDECAMARAS, while conservatively estimating growth at 12-13%, called 2004 the year of "economic reactivation" in a press conference December 20. Planning Minister Jorge Giordani, noting the traditional fourth quarter GDP jump, told press on December 15th that there was no doubt growth would be "greater than 15 or 16 percent." Central Bank Director Domingo Maza Zavala predicted December 21 a year-end result "between 14 and 16%." Credit Suisse calls these figures "conservative," predicting a 17.8% increase for the year, as does the Andean Development Corporation (CAF), while the UN's Economic Commission for Latin America and the Caribbean (ECLAC) has estimated 18%.

[13.](#) (C) Munoz, however, was critical of government performance, calling it "not very efficient," and exhorting the GOV to resume "institutional dialogue," "create friendly environments for investment," and to give space to the private sector, especially to allow job creation. Despite the GDP recovery, and the fact that unemployment in November (according to the National Statistics Institute, INE) was 12.8% (2.6% below November 2003), it is not clear that jobs are being created. There are nearly 14,000 fewer people employed than in November 2003; the statistical reduction is due to an increase of over 800,000 people who are not actively seeking employment. Local pollster and consultant Datanalisis estimates that true unemployment is around 14%.

THE BAD - OIL PRICES DROPPING FROM RECORD HIGHS

[14.](#) (C) According to the Ministry of Energy, the average price for the Venezuelan "basket" of oil was USD 31.57 per barrel in December, 28% off the record high of USD 44 per barrel set in October, and even 3% below the second quarter average, when the steady price increase began. A continued drop would put the 2005 budget at risk, given that GOV spending is estimated at 30.9% of GDP and dollar-denominated oil income represents about half of ordinary GOV revenue. Lower oil prices might force a devaluation in order for the reduced amount of USD income to cover local expenses in bolivars. Eduardo de las Casas, Citibank Country Treasurer, told econoff in October that he thought USD 25/barrel was the threshold of risk for such a devaluation, which could perhaps be even greater than the 12% (from 1920 to 2150/USD) assumed in the recently approved budget.

THE MESSY - THE LATEST ON CHAVEZ VS. THE CENTRAL BANK

15. (C) The row between President Chavez and the Central Bank (BCV) over foreign exchange profits (see reftel) took a negative turn when Chavez said December 20 that "there will have to be a trial," implying that BCV President Diego Castellanos should go to jail. He said that "Castellanos is of the age that he would be confined to home if a judge sentenced him to prison. So he will be in his house or he should quit his job and leave and make way for someone who wants to fulfill their duty to the country, because that Bank is not the bank of the Central Bank President," and added that it was "the Board of the BCV that doesn't want to understand, they don't understand, there are the completed calculations, once and again and corrected." Just four days before, Arlex Fuentes, a banking superintendency employee involved in the negotiations with the BCV, told econoff that an agreement had been completed and the BCV would give 2.2 trillion bolivars (1.15 billion USD) to the GOV during the week of December 20.

16. (SBU) Domingo Maza Zavala, one of the BCV Directors, told the press on December 21 "the BCV owes nothing to the government, to the national treasury; the assigned foreign exchange profits have been given." He added that a trial would be "very inconvenient" for the interests of the country, and argued that "the Directors, including the Bank President, have no other interest but the higher interests of the Republic, nor are we interested in retaining money that belongs to the national treasury."

COMMENT

17. (C) GDP growth, while expected to be high after two years of heavy downturn, is better than expected. However, the lack of job creation implies that this is primarily a spending boom, which will only last as long as oil income can support it. The drop in oil prices will need to be sustained for a considerable period before the GOV, committed to using the exchange peg as an inflation fighting tool, considers a devaluation beyond the 12% assumed in the 2005 budget. The latest demand for cash was probably not motivated by the drop in oil prices, since this has been an ongoing event. However, the price drop sets the latest demand for cash in stark relief, underscoring the amount of funds the GOV needs to fulfill its spending plans. When Maza Zavala says that the BCV's methodology "is in accordance with the law" and international accounting standards, his background (and that of other BCV directors) leads us to believe that any calculation errors are on the part of the GOV. We doubt that the GOV will back down from its demands, so this dispute may well end up in court. The question is, will Castellanos too? McFarland

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